



**inclusion
inc.**

about

The Inclusion, Inc. Report Series

Inclusive business, or business that pursues opportunities in traditionally unattractive market segments, is increasingly a strategic imperative for many throughout the private sector. Foregoing such segments means opening the door to disruption and closing options for future growth—especially in developing economies, which are among the world’s fastest-growing markets. At the same time, the need for responsible environmental stewardship and sustainable global supply chains pose critical challenges to “business as usual.”

Both inclusion and sustainability challenge conventional thinking about the role of business in society and how managers ought to make strategic decisions; they require new tools for innovation, resource allocation, and management.

In pursuing such opportunities, corporations, investors, and entrepreneurs play an essential role in economic development, supporting the social, economic, and political growth of emerging and frontier market economies. In conjunction with other key sectors, the private sector can pave the way for growth and prosperity—and potentially do so at scale.

This fall, the United Nations will finalize the Sustainable Development Goals. Unlike their predecessors, the Millennium Development Goals, the SDGs take seriously the role which the private sector must play if they are to succeed. Beyond typical conceptions of aid, firms, products, business models, and supply chains are seen as the key to unlocking inclusive, sustained, and equitable growth around the globe.

We believe Sustainable and Inclusive Business Activities (SIBA) will continue to push beyond traditional CSR, creating the core of innovation which will be critical to the future success of any corporation.

This report is the first part of a three-part series, which highlights the second year of research on SIBA, conducted by The Fletcher School at Tufts University’s Institute for Business in the Global Context.

We organized the series to address different sets of issues. This first report attempts to demonstrate the breadth of issues affecting the practice of SIBA today. We do this by sharing many of the conversations that took place at this year’s Inclusion, Inc. Forum, hosted in April of 2015. The second will share the common barriers and complications that practitioners face in operationalizing SIBA, and the third will provide a practical guide to analyzing, evaluating, and conducting SIBA across industries.

We hope you will read critically, ask your own questions, challenge what needs to be challenged, and continue the discussion.

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To Be An Inclusive Business, Forget Business School Lessons on Strategy

By Bhaskar Chakravorti

Originally published by Forbes, February 2015

In the coming decades, the majority of the world's economic output and market growth will come from the emerging markets. Already, the seven largest emerging markets collectively contribute more to global output than do the G7 countries combined. That said, once one gets beneath the aggregate statistics, these emerging—and dynamic—markets are rife with inequities, bottlenecks, and missing institutions.

The societies in each of the emerging markets face many economic challenges—most of which have to do with the potential for fast growth being undermined by a lack

of inclusive growth. This is a tension that global companies cannot ignore as they look to the emerging markets as the primary sources of growth in the coming years.

Under-investment in inclusive growth can pose a challenge to growth itself. The majority of citizens of the newly developing economic powerhouses do not have access to products and basic services we would take for granted in the industrialized world.

Consider some examples: more Indians have access to mobile phones than to toilets; Brazilians live in a country with an abundance of fresh water sources and yet many contend with crippling shortages;

and only 20 percent of Indonesians have access to a bank account.

EMERGING MARKETS WORTH \$30 TRILLION BY 2025

In the meantime, annual consumption in the emerging markets is projected to be worth \$30 trillion by 2025. This means an increased urgency for global companies to strategically invest in business innovations designed to be inclusive of the disadvantaged populations in these countries. Otherwise, much of the trillions of dollars worth of value offered by the emerging market consumer will remain trapped.

There are several reasons for global CEOs to be concerned. For one, there will be limits to the sustainability of growth, because not enough potential consumers will be pulled into the middle class, and supply chain and distribution bottlenecks will limit the capacity to deliver goods and services.

There is also a significant risk of political and social disruption because of the intensification of economic inequality. Recent protests from Brazil to Turkey to Thailand demonstrate the seriousness of these concerns. Gaps in the market will open the door to lower-cost local players that know the territory and could not only pre-empt the low end but also gain experience and move upmarket as well.

To pull off “inclusive innovation” requires a fundamental shift in mindset and operating tactics on the ground. Executives may have to put aside some of the core business principles handed down by courses on strategy designed for an earlier century.

MOVE BEYOND TYPICAL BUSINESS CLASS STRATEGY

A typical business class considers strategy to be about making certain choices, namely where to play, how to win and how to organize. Thus far, the managerial mantra has been:

1. Choose where to play by picking the most attractive markets. Do not spread yourself too thin. Segment the market and focus resources on the most profitable segments.
2. Choose how to win by identifying the most attractive segments and use market power as leverage to extract the highest margins when negotiating with other industry participants.
3. Choose how to organize by focusing the company's activities on its core competencies.

Developing a strategy for inclusive innovation demands a significant departure from these principles. Consider some of the adjustments that a manager has to make.

First of all, there must be a willingness to play in less attractive markets. You must develop models to serve unprofitable consumers. Regardless of expectations for the “fortune at the bottom of the pyramid”, for much of the manager's tenure these segments will not deliver returns that match those in the more profitable segments of the company's business. For the foreseeable timeframe, they will remain low-margin segments even in the best of possible scenarios.

Second, inclusion will require easing up on optimizing negotiating leverage. Otherwise, you will deter small entrepreneurs, smallholder farmers and other “low leverage” players from joining your value chain, as suppliers or distributors essential for operating in many emerging markets.

In other cases, optimizing negotiating leverage may force small players to accept disastrous terms in order to do business with you. The poor working conditions at Foxconn's electronics assembly plants in China and the Rana Plaza factory collapse in Bangladesh, which led to the deaths of over a thousand workers, are evidence of the risks inherent in driving deals with local suppliers that are asymmetrically advantageous to global players.

TRADITIONAL FORMULA CAN LEAD TO DISASTER

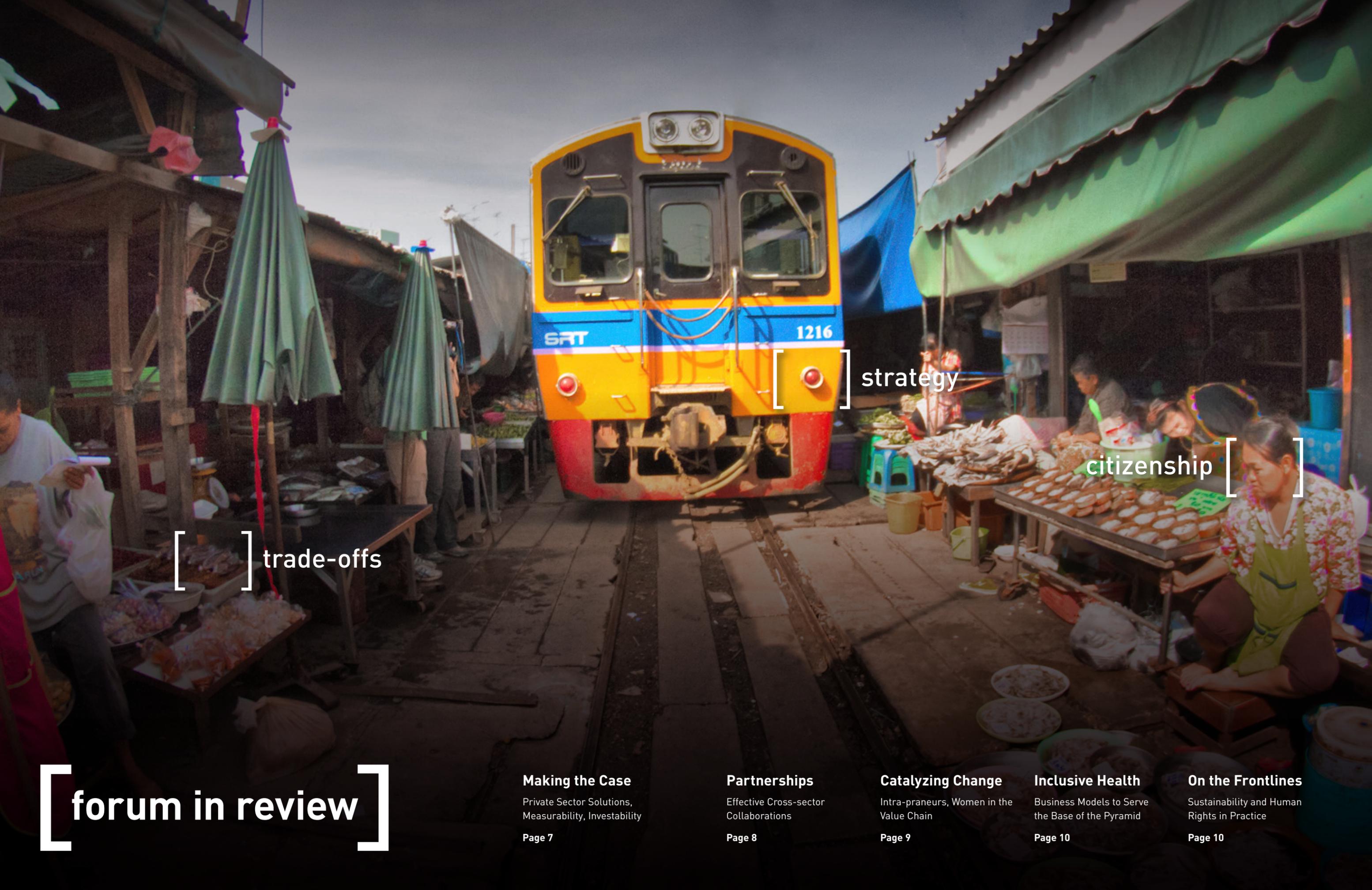
It is time for managers to recognize that in parts of the world where good governance, the rule of law, labor rights protections and building safety codes have not matured, applying the traditional “how to win” formula can lead to disaster. At best, it presents a serious business risk. If outsourced production happens on terms that are

highly disadvantageous for the outsourcing suppliers, it creates conditions for a race to the bottom on environmental and working conditions, as suppliers attempt to recover margins wherever they can.

Third, an inclusive approach to business will require that the manager considers engaging in parts of the value chain that may be outside the organization's core competencies. This is because the company may have to step in to fill voids, both upstream and downstream, to ensure that its business operations can run and grow sustainably.

The company may have to develop creative solutions to fill in the gaps in its supply chain and distribution networks or provide technology transfers and capital to enable local entrepreneurs and NGOs. In some cases, companies have worked with local governments and businesses, as the agri-business giant Olam has done in Gabon to establish infrastructure and a special economic zone. In other cases companies have developed partnerships with other critical agencies to move into unfamiliar portions of the value chain. For example, Coca-Cola worked with the Gates Foundation and Technoserve to enable technology transfer and provide capital to farmers in Uganda and Kenya, to ensure local supplies of mango, passion fruit and other fruits for its juice products.

It is time to take another look at how we are preparing managers to do business in emerging markets. Business strategy needs to be re-thought and re-learned. If you remain trapped by axioms developed for twentieth century industrialized markets, you will suffer trapped value in the emerging opportunities of the twenty-first century. [1]



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“The most important thing we’re not talking about is who we are trying to serve.”
Sasha Dichter, *Acumen*



VIKRAM AKULA
FOUNDER, SKS MICROFINANCE

Profiting from Poverty?

Making the Case for Private Sector Solutions

When SKS Microfinance became the first microfinance organization to IPO, it shattered assumptions about the power of enterprise to serve the poor profitably and at scale. Yet, as Inclusion, Inc.’s opening keynote speaker **Vikram Akula**, founder of SKS Microfinance, can attest: with great ability to scale comes grave danger. Akula joined the forum with a rare off-the-record conversation. Kicking off the day, he drew lessons learned from his successes and failures and looked deep into the role of profits in creating sustainable development and poverty alleviation for the world’s poor.

In his candid remarks, Akula looked out at the systems surrounding SKS and their many tension points, as well as inward at inflection points in his own journey—from a student at Tufts to star of the microfinance world to a lightning rod for debate, and now on to a new beginning with his latest venture, Vaya Finserv. Read more on p15.

Making Inclusive Investment Happen:

Challenges of Measurability and Investability

“If you say ‘inclusion’ it takes you to one part of your brain, if you say ‘investment’ it takes you somewhere else...We have to unite those very disparate parts of our brain.”—**Mike McCreless**, Root Capital.

Even in today’s world of social impact bonds, social investors, and social ventures, the road to scaling social finance from a niche product to a recognizable asset class will be a long one. Harvard Business School Professor **Alnoor Ebrahim** led a discussion with world-class experts seeking to understand not only what is holding social finance from reaching scale, but precisely what may define this emergent field.

With insight from **Sasha Dichter** (Acumen), **Masha Gordon** (formerly PIMCO, current CEME Fellow), and **Mike McCreless** (Root Capital), the panel sought to define social investment and unpack how social finance is differentiated, measured, and evaluated. As Dichter also pointed out, impact investing takes root in the minds of many investors as a conversation around tradeoffs. Yet, much of the panel agreed that in today’s terms, what is important is alignment between investors and investees. The expectation around returns, measurement, and impact must be clear for all parties, from the raising and allocation of capital, to the terms of investment, repayment, and evaluation.



MASHA GORDON
CEME SENIOR FELLOW



TIM CROSS
PRESIDENT, YOUTHBUILD INTERNATIONAL

Partnerships at Scale:

Building Effective Cross-sector Collaborations

Justin Bakule, Executive Director of FSG’s Shared Value Initiative, opened an invigorating conversation on how cross-sector partnerships can be successful in enabling long-term success for partners and consumers.

As Bakule noted, practitioners are keenly aware that good partnerships are essential to success in pioneering sustainable and inclusive business practices at scale.

To explore exactly what it takes, Bakule was joined by **Lata Reddy** (Prudential), **Dina Silver Pokedoff** (Saint-Gobain), and **Tim Cross** (YouthBuild). Both Prudential and Saint-Gobain have been long-term partners with YouthBuild, a global non-profit which creates pathways towards sustainable

likelihoods for young people around the world. Cross, who is Executive Director and CEO of YouthBuild International, helped to unpack the elements that he felt made their partnerships successful. The themes of carefully allied goals, mutually beneficial programming, and multi-dimensional assessment and evaluation arose as common amongst the group.

Beyond ideals and values, Cross was able to identify five attributes that have made their corporate partnerships tick, allowing YouthBuild to reach scale with partners across industries and the world:

1. Companies have the jobs. They represent the demand side for YouthBuild’s services—helping young people develop essential skills.

2. Companies have the technical expertise that YouthBuild does not have.
3. Corporate volunteers are key resources that YouthBuild can draw upon.
4. Companies have leverage with many of the enabling institutions, and with key actors like government.
5. Companies can provide essential funding for YouthBuild’s programs.

[forum in review]

“I don’t particularly like the terms ‘inclusive’ or ‘sustainable.’ ... To me, it’s just business.”
 Jessica Long, *Accenture*

Turning Point:

Stories from Intra-preneurs Catalyzing Inclusion within Organizations

Four remarkable individuals took to the forum stage for “Turning Points,” a session which explored critical pivots—both in their careers and personal lives—which inspired each to seek new approaches to classical business models.

Maureen Alphonse-Charles (The Partnership, Inc.), **Dorothy Chan** (MTR Corporation), **Anne Erhard** (Edelman), and **Satish Jha** (One Laptop per Child) shared their stories of color braveness, powering purpose from the inside out, and much more. One message cross-cut the conversation: the greatest forces of inclusion are the instincts and desires that come authentically from within business leaders.



MAUREEN ALPHONSE-CHARLES
 SVP & COO, THE PARTNERSHIP, INC.

Women in the Value Chain:

Sustainable and Inclusive Business Through a Gender Lens

It’s not inclusion, it’s just business. Throughout the conference, speakers, commentators, and attendees echoed the belief that the key to success in sustainable and inclusive business is not to separate out social goals, but to view the accomplishment of better sustainable and inclusive business activities as core to innovation, and ultimately, success.

Using a gender lens for inclusive business means first acknowledging the critical disadvantage any organization that excludes half of the world’s population must be in. For **Rekha Mehra** of Creative Associates International, that means

women first being seen as workers, as producers, and then thinking about how to get women to be supervisors. For the session’s moderator, **Marcia Greenberg**, it means keeping aware of the four R’s of lay out: roles, responsibilities, relationships, and respect. And for **Wade Channel** of USAID and **Jessica Long** of Accenture, understanding the role of women in organizations and the value chain simply means understanding how to create a sustainable competitive advantage.

Innovation for Inclusive Health:

Business Models to Serve the Base of the Pyramid

“McDonald’s delivers the same quality hamburger anywhere in the world. Why can’t we do the same with healthcare?”

That was the question **Saul Kornik** asked to attendees of Inclusion, Inc. from his laptop in South Africa. It’s this question that drove him to seek to address the critical healthcare needs in Africa via his company, African Health Placements. Like Saul, each of the panelists from the “Innovation for Inclusive Health” session drew upon strong senses of personal interest and conviction to create change. Moderated by Dalberg’s **Erin Barringer**, panelists included **Jonathan Jackson**, founder of Dimagi, an entrepreneurial technology start-up which

helps marry health interventions with simple SMS interfaces, **Nancy Swanson** of The Linked Foundation, which has invested in several proof-of-concept ventures to bring safe and affordable pharmaceuticals to the rural poor in Latin America, and Janssen’s **Jami Taylor**.

For the panel, it was not about the newest or the shiniest, it’s about creating awareness, access, and disease management. It may not be sexy, but it has the power to improve the health and well-being of billions around the globe.



JAMI TAYLOR
 SENIOR DIRECTOR, JANSSEN



VAL SMITH
 DIRECTOR, SUSTAINABILITY, CITI

Corporates on the Frontline:

Sustainability and Human Rights in Practice

Beyond boardrooms and business plans, the messy truth of implementing sustainable and inclusive business activities is often fraught with difficult decisions, trade-offs, and compromise. In struggling to navigate the myriad issues confronting the business, many organizations are paralyzed and struggle to take on and really address the challenges they face along the frontlines.

“It’s so much easier to say ‘no,’” **Scott Williams** (BJ’s Wholesale Club) noted, “than to ask, ‘how can we do better and fix this?’”

As reflected by Williams and his fellow panelists, **Val Smith** (Citi), **Katie Schindall** (EMC Corporation), and moderator **Rebecca**

Pearl-Martinez (The Fletcher School), issues with implementation transcend sectors and geography, striking companies in many ways—sometimes in a fear of unforeseen consequences, which can paralyze efforts at progress, or from an inability to adjust when the needs on-the-ground vary greatly from what was anticipated.

The session identified a willingness to step away from by-the-book methods, adapting to the needs of whatever market you are entering, and being open to capitalizing on major events or shortfalls to jumpstart initiatives as key in addressing the challenges of inclusive business practice implementation.



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“It’s too late to be a pessimist”

Unilever CEO Paul Polman

This winter, global leaders in business and government will meet at the UN Climate Change Conference in Paris to finalize the work that began in Copenhagen in 2009: Create an international climate change accord. Simultaneously, the Millennium Development Goals will be replaced with the Sustainable Development Goals. Together, these policies will be critical in re-defining a post-2015 development agenda, significantly impacting global priorities, commitments, and investment for nonprofits, multilaterals and corporations alike.

Paul Polman, CEO of Unilever, and well-known advocate for sustainable and inclusive business, sees both Paris and the SDG’s as an opportunity to revolutionize the way businesses think about and respond to international development and climate change. “Companies are the first to see the costs of climate change,” Polman noted, pointing to the impact of severe droughts in Sao Paulo, Brazil and California as critical challenges to business-as-usual. New challenges will require innovation in business operations and products if firms are to stay competitive.

In addition to grave economic costs, climate change threatens national and global security as conflicts worldwide are increasingly driven by climate change-driven resource scarcity. Most notably, climate change poses the greatest threat to the poorest, who often suffer most in the face of scarcity and disaster.

Technological advances have made both measuring and combating climate change possible. Understanding both the bottom-line losses, and the societal implications of these changes, innovative business leaders like Polman have taken matters into their own hands. Instead of waiting for governments to take action, companies are proactively joining initiatives for sustainable practices and sector reform.

Some, like Unilever, approach the climate change challenge as a window for business opportunity, pushing companies to use adversity as inspiration for new product lines and businesses.

Unilever’s long-term business strategy integrates investment in the planet and people. Commitments include moving toward sustainable sourcing, using scale to improve the health and wellbeing of communities around the world, moving to zero-waste office and production facilities, and ensuring that human rights are embedded into their supply chain. Sustainable and Inclusive Business Activities (SIBA) will continue to be core to Unilever’s global strategy in order to combat the estimated 400 million Euros it has already lost to climate change, and the equally threatening impact of human rights and supply chain abuses.

“The cost of inaction has exceeded the cost of action...and as time goes on the cost of that inaction rises”

Polman argued that all countries can build sustainable economic growth while reducing the risks of climate change, an argument he and his co-authors outline in the New Climate Economy Report. While politicians continue to garner criticism for being unable or unwilling to prioritize sustainability, Polman and likeminded business leaders see innovative investment to areas like green technologies as a way to boost employment while providing effective environmental stewardship.

Today, 50% of capital invested in energy expansion is dedicated to green energy, two-thirds of which is funded by the private sector. Through partnerships, policymakers can depoliticize the issue of climate change and create an effective, forward-looking regulatory framework with high economic and developmental benefits.

Polman remains more optimistic than ever that business interests are converging with authentic social and environmental stewardship. From water-less shampoos, to ice creams that can withstand above freezing temperatures, innovation, profits and long term growth are critical. With exemplars like Unilever at the helm, large companies may be in the best position to capitalize on a time of political and regulatory change to commit to business which is competitive, inclusive and sustainable. [1]

Leadership in Action

Inaugural Global Leadership Lecture Address
in partnership with the Center for International
Environment and Resource Policy (CIERP)



The Potential Dangers of Scaling a Social Enterprise

SKS and the Microfinance Crisis in India

By Vikram Akula, founder of SKS Microfinance

What happens when a social enterprise—an enterprise that uses market-based approaches to solve social problems—massively scales up, and must suddenly navigate dangerous waters between its original mission and the kind of commercial success that was never dreamed possible at the start? As the Founder of SKS in India, one of the world's largest microfinance institutions (MFIs), I was among the first to grapple with this question. Looking back, I realize that one of the key lessons is—when handing over an organization—the importance of selecting leadership that fully embraces social enterprise principles.

Before elaborating on that lesson, let me explain why I created SKS as a commercial endeavor. I started my career as a grassroots NGO worker providing unsecured, small loans. One day, in the course of my normal rounds, an impoverished woman from a remote village that the NGO wasn't serving, asked me, "Can you offer loans in my area?" Unfortunately, the NGO was dependent on grants and could not expand. I shared that with the woman, and she looked me in the eye and said something I will never forget: "Am I not poor, too? Do I not deserve a chance to get my family out of poverty?" She wasn't asking for a handout. She was

simply asking for an opportunity. I realized then that to truly scale microfinance, we would need a new model, one that would allow MFIs to access larger pools of capital so that we would never have to turn any poor person away.

I launched SKS in 1997 to build that next-generation microfinance company, and I did so on commercial lines. If the industry was going to provide the billions of dollars of credit needed by the poor, it would have to tap commercial capital markets—and that meant structuring our businesses so that investors could expect market-based returns.

The first decade of SKS went incredibly well. We refined our products, established systems, raised debt, and expanded rapidly. By 2008, we had more than 10,000 employees, 3.5 million customers, and a disbursement of over \$1 billion in loans, with a 98% repayment rate. SKS was ranked by the MIX Market as the top MFI in the world and was named by Businessweek as one of five companies to watch alongside Facebook and Craig's List.

Now that the foundation had been built, I stepped down as CEO in 2008 and handed over management to venture capitalists and bankers. I felt at that time that SKS would benefit from the experience of seasoned bankers who had familiarity with running a financial institution serving millions and employing tens of thousands. I did not have that kind of experience. I also thought that venture capitalists would be better suited to raising the increasingly larger funds SKS needed for its continued growth.

Initially, things seemed to go well. By 2010, SKS expanded to 7 million clients, maintained a loan portfolio of \$1 billion, and completed an IPO, raising \$165 million and reaching a market capitalization of \$2.2 billion. But soon after the IPO, there was a political backlash that led to the state government in our largest market creating a law that restricted our operations. That law—combined with politicians telling people not to repay loans—led to a drastic fall in repayment rates. MFIs had to write off loans and banks stopped lending to MFIs, leading to a microfinance crisis. There were several forces behind the backlash—from corrupt local politicians to traditional village loan sharks to vernacular yellow journalists to ideologically-entrenched bureaucrats—all of which are beyond the scope of this essay. What I want to highlight here is that the microfinance industry made mistakes that gave a foothold for these vested interests.

What were the mistakes? Specifically, seeing the success of SKS, many new MFIs entered the market and started cutting key processes, such as training borrowers. To have context for this example, it is important to understand that SKS, in its first decade, took new borrowers through a 5-day training process, using cardboard cut outs, seeds, and coins, to teach largely illiterate borrowers about procedures for receiving and effectively utilizing a loan. In doing so, we ensured that groups used their deep local knowledge to only enroll people who had the capacity to run micro-enterprises. Groups also thoughtfully reviewed loan applications, approving amounts that were in line with each borrower's capacity and checking to make sure borrowers used loans for generating income.

Unfortunately, many new MFIs did not have an understanding of such critical features, and they took short cuts. For example, they whittled down training from 5 to 4 days and so on. Eventually, there were pockets of hyper competition, where MFIs eliminated group training completely. This led to enrolling borrowers who did not have the capacity to invest in micro-enterprises and eventual incidents of over-indebtedness. Unfortunately, to avert poaching of their clients, even established players—including SKS—starting mimicking these practices. Incidents of over-indebtedness then gave a platform for the political backlash, some of which was maliciously motivated and some of which was based on genuine concern for borrowers who were in over their heads.

Because I was the non-executive Chairperson of SKS during this period, I was not involved in its day-to-day activities, and as a result, I was not aware of how adrift microfinance had become. As soon as I realized these problems were occurring, I proposed that SKS stop lending and retrain its staff and its borrowers. But my calls fell on deaf ears. The leaders of SKS refused to admit mistakes and instead

wanted to move borrowers from unsecured lending to lending against gold, basically pawn-broking. I tried to appeal to them by arguing, first, that pawn-broking was exploitative and not within the mission of SKS and, second, that pawn-broking would sever the relationship we had with our borrowers, undermining loyalty, and leading to an even greater political backlash. Neither argument worked. They saw instead a choice between superior—from their perspective—secured lending versus unsecured lending. We were speaking different languages. We had different frameworks. Eventually, in 2011, after a painful, unsuccessful struggle to get SKS back to basics, I left because the culture of the organization had changed.

As I look back, the key learning for me is that a mission-driven organization like SKS cannot expect to maintain that mission if control is handed over to people who do not embrace social enterprise principles. No doubt, bankers and venture capitalists are necessary when scaling microfinance, but I had naively thought that bankers and venture capitalists would—on their own—maintain the culture that we had created at SKS. I had assumed that they had understood the business well enough to realize what was mission-critical, such as proper training of groups.

Thankfully, soon after the crisis, the central bank established much-needed regulations—ranging from prohibitions on lending against gold to establishing credit bureaus to capping loan amounts. In addition, today, there is greater focus on client protection as well as legal structures, such as Benefit Corporations, which provide a framework for companies wishing to benefit society as well as shareholders. I am hopeful that such tools will enable this generation of social entrepreneurs to better use market-based approaches to solve social problems at scale without losing their mission. [1]

“The revolution is already happening—sorry if you missed it.”

Amory Lovins

The Path to a Sustainable Future

A Conversation with Amory Lovins
Co-Founder and Chief Scientist,
Rocky Mountain Institute

AMORY LOVINS is Co-founder, Chief Scientist, and Chairman Emeritus of Rocky Mountain Institute. A 1993 MacArthur Fellow, Mr. Lovins has been active at the nexus of energy, resources, economy, environment, development, and security for more than forty years. He is widely considered among the world's leading authorities on energy, particularly its efficient use and sustainable supply, and is an innovator in integrative design and superefficient buildings, factories, and vehicles.

FLETCHER FORUM: In *Reinventing Fire*, you speak of an economy that can grow by a factor of 2.6 over the next fifty years, without oil, coal, or nuclear energy. Do you believe that we're on track?

AL: Well, who is on track for what is the question. The United States is on track for 84 to 86 percent (roughly) carbon reduction at an extra cost of minus 5 trillion dollars. That's not counting any carbon price or other externality value. This is, of course, not enough by itself to get the world on a safe climate track. The combination of the U.S. and China has an even bigger potential, which we've identified in a collaborative project with the Chinese top energy experts, and although it's still not enough, it's closer because together we emit over 40 percent of the world's carbon.

It would take a lot of other players, although the EU is making very good progress, particularly Germany, the world's fourth biggest economy, which

cut its energy use 4 or 5 percent last year and is at a record low for carbon emission. Japan is in a policy bind right now, trying to suppress renewables to make room for a nuclear restart. They're in the process of blocking access to the grid of renewables that are a lot cheaper than burning imported fossil fuel in existing plants, so they're raising their prices and carbon emissions out of nuclear ideology. I don't think that will last forever, but it's certainly an embarrassment and an unnecessary cost to their society.

I think the leadership and progress in India on renewables and also the good beginnings there in moderate efficiency are very encouraging. A colleague of ours, Rohan Parikh, has been building a bunch

of new office buildings using a fifth the normal amount of energy, costing 10 or 20 percent less to build, and getting much better results. He's been sharing that, with the blessing of his chairman, with businesses all over India.

FF: What types of advice you would give to the heads of state in the run-up to the Paris climate negotiations coming up?

AL: Well, I tend not to get into the Paris complexities. Obviously I very much hope it will succeed, but you don't actually need a treaty to get countries to do what is in their economic self-interest.

China, for example, which is well ahead of the United States in efficiency and renewable progress, is the only country I know of that increased its energy productivity over 5 percent a year for a quarter century running, up until 2001, and then close to that pace after a five year gap. They didn't make that enormous efficiency gain because the treaty made them do it, but rather because leaders understood that if efficiency is not the foundation of the development process you can't afford to develop, because the supply side eats the budget. So although there's always scope for international progress through such agreements, I think national, sub-national, private sector, and civil society progress does not necessarily require such a treaty, and progress is increasingly being made at those other levels through other modalities and actors.

If you go back to the history of the modern climate debate, it was obvious to anybody paying attention in the 1960s that this was going to be a serious problem (and obvious to some in the 1860s actually—it was Svante Arrhenius who figured it out). In the 1960s it was already obvious, but it didn't really get to much public prominence until the early 1980s. I put a pretty strong statement about it in my Foreign Affairs article in

1976, and it surprised a lot of people, but I'd been a protégé of the late Carroll Wilson, a professor at MIT who'd run the Study of Man's Impact on Climate (SMIC). That was a very early convening of leading climate experts, who figured out most of what the big issues were going to be.

In the 1980s and even more in the 1990s, the coal industry ginned up fake studies to show that solutions, while unnecessary, would be very costly. And I'm afraid the leading environmental groups fell right into the trap, and said, "Yes, it will cost more, but it's worth it, and it shouldn't cost as much as you say." What they should have said was, "No, you got the sign wrong." It's not costly, but profitable—because efficiency is cheaper than fuel, which was true even in those days and it's much more true now. And we've been on this wrong track ever since. It's reinforced by the way most governments' climate policy is dominated by theoretical economists, who were schooled in diminishing returns and who assume that markets are essentially perfect, so anything we haven't done already must cost more, or we would have done it.

FF: You mention in previous speeches that you don't think that there needs to be new inventions and new technologies, that we can actually reach this economy that you envision in your book through existing initiatives or existing technologies. Is that still true?

AL: Yes. It is still true, although innovation is accelerating and there will be many new technologies. You can now save, in the United States, about twice as much energy as even I thought—when I was considered extremely sanguine on the subject around 1980—and at only around a third the real cost that I thought then. That's just with innovations that have already happened. Many more will happen that will make it even cheaper and easier.

FF: Over the next fifty years, what are some of the innovations, advances, or events that you're most excited about in the field of energy or environment or climate change, whether related to technology or policy or consumer mindset?

AL: Transformation, but I'd typically not try to forecast up a year ahead; that's noise. However, I think there will be wider recognition that big savings will be cheaper than small savings, if you optimize buildings, factories, and vehicles as whole systems, not bins of isolated components.

It will be obvious to even more people that renewables and distributed power generators generally are running away with the electricity market. What *The Economist* calls micro power, which is renewables minus big hydro plus co-generation, is now a quarter of global power generation and half of new capacity. That's not a fringe activity anymore. Renewables other than big hydro have been adding, in each of the past four years, over 80 gigawatts a year and getting up to a quarter trillion dollars of private investment. Eighty gigawatts a year is more than the non-renewable additions. A quarter trillion dollars per year is more than the market cap in the coal industry. Every year we're investing more than that in renewables.

So the revolution is already happening—sorry if you missed it—but it's going to accelerate. Bloomberg New Energy Finance, which tracks all the market transactions and their economics, believes that, over the next fifteen years, new power generating capacity additions will be cut in half from fossil and nuclear plants (not counting their retirements) and will triple in renewables. []

This interview was originally published in the Summer 2015 edition of The Fletcher Forum of World Affairs.



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[] exchange

entrepreneurship []

[solutions symposium]

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Disclosing Environmental Impacts in Agribusiness

As the deleterious effects of human behavior on the environment become more apparent, the well-established financial, managerial, and political risks used to analyze project viability continue to evolve, often including environmental concerns in addition to traditional measures of success. Few business sectors are as vulnerable to or impactful of environmental risk as agribusiness. As such, disclosure of environmental impacts for agribusinesses may present an opportunity to reward efficient and responsible operators, and encourage better behavior amongst traditional players. The key concern of this group was to discuss ways agribusiness companies can address the trends of climate impact via disclosure.

KEY QUESTIONS

Assuming that Agribusiness would be open to disclosure, which actors within the agribusiness value chain are critical to encouraging the disclosure of climate impact risk, and which are critical to operationalizing impact reporting?

STAKEHOLDERS

Agribusiness has a long supply-chain, with a vast array of actors, including farmers, regulators, financial institutions, suppliers, storage facilities, middlemen, unions, retailers, farmer cooperatives, consumers, and associations.

NGOs, institutional investors and banks, and farmer cooperatives were identified as the most influential in terms of disclosure. NGOs and investors/banks are the driving

force behind disclosure demand, and cooperatives are key to data collection and overall implementation.

PROBLEMS

Companies prefer not to disclose environmental impact information. In addition to the burden of assembling reports, there is little demand to do so, and no reward mechanism for those that do disclose. Moreover, corporations may face increased operational costs, or suffer from bad publicity if they reveal impacts which are seen as “negative.”

External stakeholders do have a role to play in the execution of sustainable business practices, yet limited power to influence without collective action. In production,

farmers must be trained and encouraged to use sustainable practices. Lack of knowledge, the misuse of chemicals, and improper watering are all examples of practices that could increase the reported impact of agribusiness companies, which are within the purview of external stakeholders, and therefore outside of strict bounds of influence.

Consumers and institutional investors have a key role to play in creating demand for accurate and timely environmental impact reporting, however both require critical mass to succeed in “moving the needle.” Focused advocacy campaigns, such as divest, provide some evidence that advocacy can be powerful, but in agribusiness, the demand has not matured into a coherent and united coalition.

SOLUTIONS

What if farmers themselves were to demand information about the environmental impacts of production? The group developed a two-phase plan called “ET (EcoTest) Phoning Home to Save Planet”. This plan envisaged using cellular phone networks to collect data and inform farmers. Farmers would collect and send data via cell phones, and the data would then be examined using scientific risk metrics on relevant variables, such as soil quality. Through this mechanism, farmers would be able to assess the quality of their production and more immediately address any shortcomings in sustainable production methods. The benefits of this system would be twofold—it would provide companies with reliable data collection and could

decrease farm insurance premiums by improving conditions.

In the second phase of this plan, consumers would be informed about a product’s impact through a rating system (e.g. A+, A, B). Ideally, the revision of Carbon Disclosing Project list would encourage companies’ market eco-friendliness. Such objective rating systems would have a positive impact on consumer behavior and put more pressure on companies that are reluctant to reveal information. []

Gender Analysis for Better Inclusive Business Practices



OVERVIEW

Inclusive business strategies can create competitive advantage for long term growth and product placement throughout the world, and particularly in developing markets. Traditionally, groups such as women have been excluded from traditional businesses as consumers and suppliers due to perceived high costs and low expected returns, or cultural norms.

This dynamic group composed of change-makers in the public and private sectors sought to explore the many issues that prevent women from being included in value creation and capture, with a focus on resource allocation within large corporations.

PROBLEM

The group addressed the following questions: How do we invest in women as consumers and in the workforce? Why is a gendered lens important to those people investing in social and economic opportunities for women? What is the business case for private sector investment in women?

STAKEHOLDERS

The team identified an ecosystem of stakeholders, ranging from policymakers to distributors. Shareholders and consumers were seen as having the most importance, with pundits and the media taking a close third. Using a financial product as an example, the group discussed what female consumers would want in a financial product, and why an inclusive company would be better equipped to address those customer needs. The group identified a critical information gap between investors (a key stakeholder to publicly traded companies) and understanding the value of gender inclusive business practices.

If investors and board members understand clearly the financial and social benefits for companies that invest in female capital, there will be a greater impetus to invest in developing this critical resource base.

SOLUTION

Many companies view investing in women as detracting from core business, and employing a gendered lens as a Corporate Social Responsibility initiative rather than

key to competitive advantage. In actuality, taking a gendered lens by putting women on the board or appreciating women as consumers can drastically increase not only a company's economic returns but their sustainability as an enterprise.

Because many venture capital and investment firms are heavily male dominated, so too are corporate boards and key investors. The group proposed the development of an investment and advisory function dedicated to inclusivity and female investment within the company, which would only invest in projects and enterprises that are gender inclusive.

The entity would itself be committed to gender equity, promoting gender-balanced boardrooms, and using a principled mandate to demonstrate the financial returns that internal investment in women could provide. Such an entity or taskforce could provide "proof of concept," serving as an example to other business units and corporations. []



Investability of Inclusion

Financing Sustainable and Inclusive Business Activities and Social Enterprises

OVERVIEW

This roundtable discussed the current investing ecosystem around Sustainable and Inclusive Business Activities (SIBA). The group reached a working definition of “investability” in this space, reviewed relevant precedents, and put forth a number of “fresh ideas” to deal with outstanding challenges to social investment.

“Investability” was defined as the emergence of a large and vibrant marketplace of capital for social enterprise that grows and flourishes over time.

The roundtable’s participants agreed that the microfinance industry is a relevant precedent for investability in the social-enterprise space. However, microfinance exhibits some differentiating characteristics from the field of social enterprise. First, it offers potential investors a set of fairly homogeneous enterprises with a proven

business model. These two traits are often lacking in social start-ups: thus, we must think of new and innovative ways around current investability dilemmas.

PROBLEM

How does one increase fundraising for social enterprises, creating sizeable impact in the process? On the demand side, do nascent social enterprises need just money, or more? If so, what else is needed? What if we could provide the key ingredients to both sides as to foster full investability?

STAKEHOLDERS

There are perhaps two “poles” to the issue of investability, which also constitute the two key stakeholders: social enterprises (the demand side) and capital providers (the supply side).

Social enterprises need scale, know-how, adequate governance mechanisms, proper legal and regulatory frameworks, partnerships, and business networks for them to fully realize their goals of generating a sustainable revenue model, creating mechanisms for transparency, and maximizing impact. In order to do this, they require a number of “enablers”, among which capital is only one. They also need proper technology, liquidity, a deal pipeline, and mentorship. It is crucial that investors invest not only in particular enterprises, but in the creation of a favorable ecosystem.

However, investors seldom invest without asset managers, another key stakeholder in this space, and the aggregators and gatekeepers of capital.

Managers have their own goals and priorities, including allocating capital efficiently, gaining/keeping market share,



and maximizing investment performance, both in terms of financial return and (for socially-minded ones) impact. Managers also face their own set of concerns and barriers, including availability of investment opportunities, liquidity constraints, incentives to manipulate impact, and lack of impact standards.

ANALYSIS

The group reviewed the unspoken assumptions often taken for granted in this space:

- There is limited capital available to social enterprises
- There are strong disincentives to investment
- Investors are rational and profit-maximizing
- Financing is the answer
- “Sizable” impact is needed

Participants questioned these assumptions:

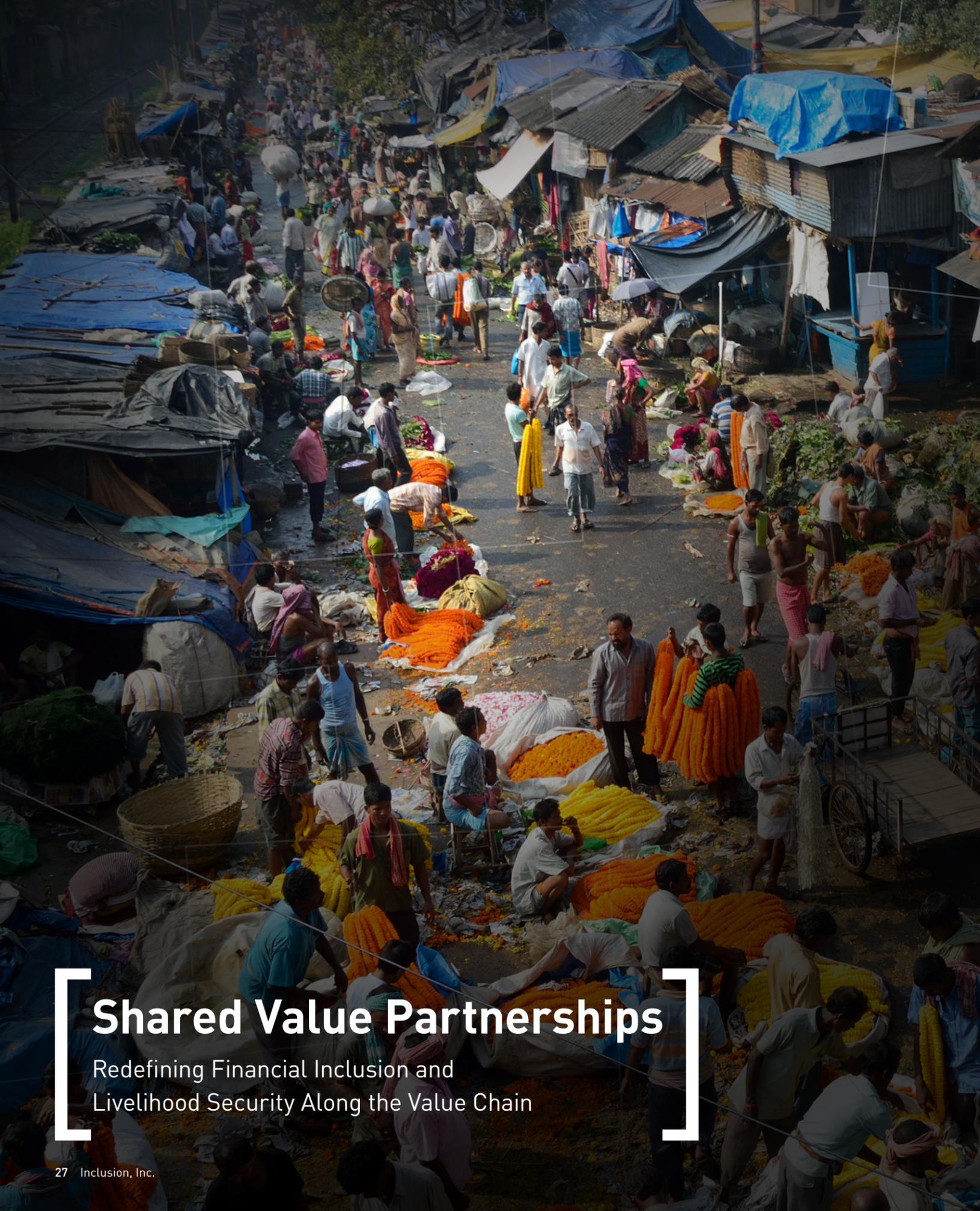
What if no intermediation is needed between investors and social enterprises? What if there was no profit maximization in this space? What if small, niche players come to dominate? What if “impact” investors only care about “feel-good” factors?

This exercise of questioning conventional wisdom brought a number of disruptive proposals to the table: What if endowments go into “Impact Investing”? What if pension funds were mandated to have double or triple bottom line –in a policy move analogous to the famed India CSR initiative? What if peer-to-peer or crowdfunding solutions take hold? Perhaps micro-equity or micro-ratings (à la Yelp) for social enterprises are the future? What if dormant-capital seizures take hold? What if global imbalances cause a wholesale shift in the financial system –and humans and the environment start being considered as investable asset classes too?

SOLUTION

Of all the ideas put forth, the table agreed perhaps the way forward is direct engagement of investors with social enterprises, using peer-to-peer investment platforms. Peer-to-peer investment must be paired with a vetting system for social enterprise, as to provide for good governance and proper impact monitoring. Entrepreneur networks the world over already perform this function quite efficiently.

This proposed solution, the roundtable posited, is not only feasible, given the right technological inputs, but quite valuable, as it both addresses bottlenecks in capital flowing to social enterprises and it expands access of social enterprise to retail investors, who largely have been excluded from social investing. []



Shared Value Partnerships

Redefining Financial Inclusion and Livelihood Security Along the Value Chain

OVERVIEW

The concept of creating shared value can be implemented across any business or supply chain, making our possibilities for challenges to tackle very broad. The group looked to explore shared value in the context of the coffee supply chain, particularly in the situations where coffee suppliers are vulnerable to coffee leaf rust. Coffee leaf rust is a debilitating disease for coffee plants that is caused by excessive rains and has reduced production by as much as 40% in some parts of Central and South America. The only solution for farmers if they are affected by this disease is to replant their fields, about a three year reinvestment. Replanting requires long term financing, and is a risky investment for lenders.

Root Capital's current solution is to provide financing through a coffee farmer resistance fund that joins many different stakeholders to create a large fund that can provide capital for farmers who have been affected by coffee rust. While this solution provides significant relief for farmers in need, the group decided to investigate ways to protect the supply chain proactively against external shocks, using a shared value approach.

STAKEHOLDERS

Amongst stakeholders around the value chain, coffee co-operatives were identified

as the key lynchpin in the supply chain. They provide most of the services to individual farmers, and are the key recipients of most of the information and financing from NGOs and the private sector. On the input side of the cooperatives were large corporate suppliers of fertilizers and seeds, as well as financing bodies and NGOs. On the output side, however, there are two different routes to the end consumer, with one large supply chain managed directly by large buyers such as Starbucks and Keurig Green Mountain, and another large supply chain passing through brokers. This second supply chain creates a larger challenge for shared value, with more people involved, and less centralization to provide support to farmers affected by leaf rust.

It was through this lens of input and output stakeholders that the group discussed if there was a point at which shared value is more impactful or effective, and ideated around a solution to proactively protect farmers from external shocks to the supply chain.

SOLUTION

The group focused its ideation on the cooperatives, due to their influence as the centralized resource for farmers. The focus was on finding solutions to empower the cooperatives, particularly to receive correct technical assistance more efficiently and

affordably. With NGOs currently holding a great deal of power in the supply chain, the objective was to find a way to hold the NGOs more accountable in providing quality services.

Within such a long and often disaggregated supply chain, through which many stakeholders actually earn a significant profit margin, the group found it imperative to identify a solution that involved numerous stakeholders. The team identified a solution whereby technical assistance funding from large corporations would go directly to cooperatives, through a fund that is backstopped by foundations and multilaterals. The cooperatives would then be enabled to fund NGOs directly for their assistance, and hold NGOs accountable for the services they are providing. This solution would create shared value across the supply chain, where co-operatives hold control of the technical assistance they are receiving, farmers have access to more relevant technical assistance, and corporations mitigate the risk of not receiving enough crops to meet their consumer demand. [1]



UN Guiding Principles and Corporate Reporting

Human Rights Reporting as a Catalyst for Improved Corporate Practices

OVERVIEW

The United Nations (UN) unanimously approved the Guiding Principles on Business and Human Rights (UNGPs) on June 16, 2011. The UNGPs aim to provide a standard by which governments as well as corporations can be held to account for their responsibility to protect and respect human rights. They also provide guidelines on recourse to be taken in order to address any abuses that do occur. In order to encourage compliance, the UN Guiding Principles Reporting Framework was developed by RAFI, the Human Rights Reporting and Assurance Frameworks Initiative (RAFI). RAFI, co-facilitated by Shift and Mazars, launched the reporting framework in February 2015.

PROBLEM

Several corporations, including first-mover Unilever and other early adopters Ericsson, H&M, Nestle, and Newmont, have already used the UNGPs to report on their human rights practices. These corporations are ahead of the curve, with many others yet to begin reporting. However, the quality and accuracy of reporting is just as critical as the act of reporting itself—incomplete or inaccurate reports can give an unrealistic impression. There remains a clear need to harmonize reporting by improving both quality and uptake.

The group identified several issues as barriers to improved reporting, including a lack of effective incentives for corporations.

While some corporations have embraced inclusivity as part of their business model, others require evidence that quality reporting has a direct positive correlation to increased financial profitability.

STAKEHOLDERS

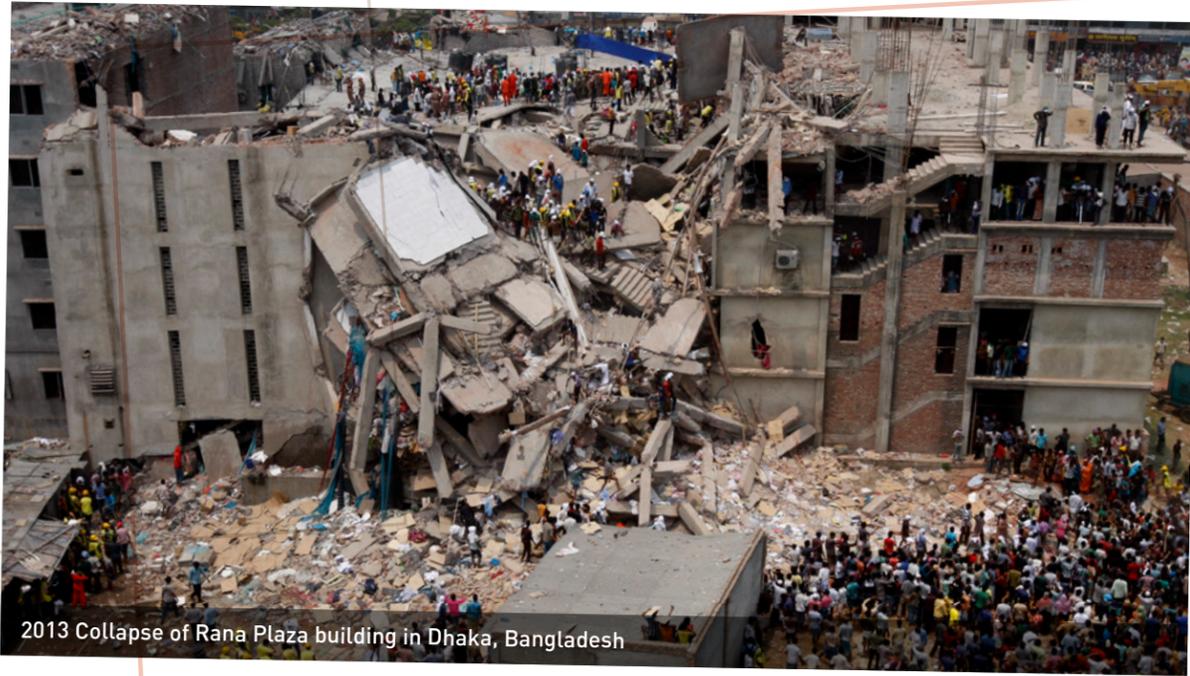
The group identified actors within the ecosystem and clustered these stakeholders into subsets based on the manner in which they interact with reporting guidelines. They examined how certain actors set a “floor”, or the lowest common denominator in reporting, while others establish a “ceiling”, or gold standard of reporting. Those which set the “floor” were identified as regulators,

stock exchanges, and government policy makers. Those which set the “ceiling” include consumers, impacted individuals and employees, and the media and public opinion makers. This gold standard is achieved through auditor and consultant verification, reporter fact checking, trade association vetting, and company executive approval. Fueled by information from academics and research institutions, stakeholders such as investors and international financial institutions can put positive pressure on corporations to improve reporting. Government policy makers and other international bodies can set regulation through National Action Plans.

SOLUTION

The group framed a ‘carrot and stick’ approach to encouraging reporting. Offering praise was identified as one approach to encourage quality reporting—celebrating those who are not only early adopters, but whose reporting is a thorough, accurate reflection of their practices. NGOs would serve in a watchdog role, identifying key gaps and negative consequences of negligent reporting. They can map and analyze trends and rate corporations according to their level of compliance. NGOs can also work alongside governments and investors to identify sectors that have the highest risk of non-compliance.

The group also deemed it important to receive feedback from consumers and corporations, to gauge how compliance may affect public perception, and to learn about the realistic implementation of the framework, respectively. Additionally, corporations that are early adopters may be concerned about external comparisons. With many companies yet to comply with full and transparent adherence to the framework, it will be important to allay fears that compliance could have negative consequences. If early movers believe that non-compliance is better for company image and financials than compliance, it may be hard to keep them in the initiative. []



2013 Collapse of Rana Plaza building in Dhaka, Bangladesh

The Unintended Consequences of Inclusive Business

By Bhaskar Chakravorti

Originally published by Forbes, April 2015

At Inclusion, Inc., we tested the idea that “the only competitive business is an inclusive business.” Inclusive business, or business that pursues opportunities in traditionally unattractive market segments, ought to be a strategic imperative for corporations and investors. Foregoing such segments would open the door to disruption—because of low-cost entrants or political insurgencies—and shut off options for future growth.

Now, here is the rub: in addition to the long-term and uncertain nature of its returns, inclusive business may also face several unintended and problematic consequences.

Our conference was bookended by two keynotes, one by Unilever CEO Paul Polman and the other from SKS Microfinance founder Vikram Akula; both are inspirational inclusionists. One runs an inclusive business spanning 190 countries and the other built the largest for-profit microfinance institution in the world from the bottom up.

Both had to contend with the short-term demands placed on publicly-held companies. And both encountered one of the five most significant unintended consequences of inclusive business:

PRESSURES OF PUBLIC MARKET EXPECTATIONS

The first unintended consequence of inclusive business has its origins in an organizational contradiction: key stakeholders—shareholders, market analysts, and even line managers whose compensation is tied to quarterly targets and stock performance—may not support a corporate decision to be inclusive.

Unilever’s Polman got rid of the quarterly reporting cycle at his company and placed his bets on growth in the emerging markets, with inclusive and sustainable strategies. But these choices have not

made many prominent shareholders very happy. They have been quite vocal with their complaints about Unilever’s sales falling below expectations.

Akula’s problem was a different one. The SKS Microfinance sales team found itself competing against other microfinance lenders, and, as a result, fueling an over-indebtedness crisis in the state of Andhra Pradesh in India.

STRESSES ALONG THE SUPPLY CHAIN

It is easy to imagine the pressures placed on suppliers as inclusive businesses push into market segments where the margins are thin and volumes are large. The challenge is particularly acute in the emerging markets where value chains are incomplete and the supporting infrastructure and institutions are under-developed.

Already, the pressures on such incomplete supply chains to deliver faster and cheaper have resulted in several crises. Recall the widely-publicized problems in China faced by Yum! Brands’ KFC franchise (antibiotics in poultry), Apple (human rights violations at factories run by Foxconn, a key supplier) and Mattel (defective design and scares over lead paint used in toy manufacturing).

Consider also the challenges that a single industry, garment manufacturing, has faced with fires and factory building collapses across South Asia. As long as the primary way to source low-cost, affordable products is from small operators in low cost regions, inclusive business is exposed to supply chain risks.

DISTORTIONS IN PRODUCTION

As an inclusive business creates incentives for local communities to join the value chain, resources are re-prioritized to align with commercial demands. On many smallholder farms, for example, food crops

and staples have been displaced by cash-generating crops, such as sorghum, sugar cane, or cocoa.

Several major corporations, such as SABMiller and Coca-Cola, have invested to help smallholder farmers with expertise and other resources, to bring them into their supply chains. This could affect food security in the regions in question, but could also expose financially vulnerable farmers to cyclical movements in the prices of cash crops.

While some studies show that cash-crop cultivation provides significant benefits to farmers through improved productivity, there is a risk of displacement. According to the Wall Street Journal, until 2011, Uganda was the second largest supplier of corn and beans to the UN World Food Program in sub-Saharan Africa. But its sales to WFP have dwindled since then. In the meantime, SABMiller’s unit in Uganda has a stockpile of sorghum to last 10 months, according to Joseph Kalule, the local sourcing manager with SABMiller.

DISTORTIONS IN CONSUMPTION

Many of the original critiques of the movement to serve the “bottom of the pyramid” consumer made the observation that the poor will spend their limited budgets on the products that are most successful in reaching them. It begs the question as to whether more readily available products have displaced essentials from the consumption basket.

CHALLENGES IN SCALING-UP FRUGAL INNOVATION

Many inclusive businesses get a jumpstart through improvisation and assembling of locally available resources—often described as frugal, MacGyver—after the endlessly inventive 80s TV hero—or, in India, “jugaad” innovation.

These innovations capture the imagination, attract media coverage, and, most importantly, attract resources. Unfortunately, the vast majority of such ideas have had difficulty deploying at a large scale.

A vivid illustration of this phenomenon is the case of PlayPump International, which started as a solution to the need for clean water in communities in South Africa. The company attached a water pump to children’s play roundabouts in school backyards. With the widespread attention generated by a PBS Frontline documentary, endorsements from Bill Clinton, Laura Bush and Jay-Z, and funding from the Steve and Jean Case Foundation, the concept took off.

PlayPump consumed huge resources, but without a clear pathway to scaled-up execution and replication. It didn’t take long for the concept to become an orphan, abandoned by the communities it was meant to serve, as well as by its business partners, investors and celebrity champions—whose resources could have been deployed productively elsewhere.

In sum, it is possible to profit in the long-term from pursuing today’s unprofitable segments. Inclusive business investment may initially seem like a bitter pill, but it could turn out to be good both for you and for society at large. For any manager inspired by Polman or Akula, it is advisable to read the label on the side-effects first and manage them before taking the pill and enjoying its many benefits.

Help us move the needle by telling us how you initiate and evaluate the sustainable and inclusive business activities at your organization: take a survey conducted by The Fletcher School in collaboration with the Citi Foundation. []

[thank you]

We are grateful to the many participants, contributors, supporters, and volunteers, without whom the Inclusion, Inc. Forum and report would not have been possible. In addition, we extend our sincere thanks to the following individuals for their roles:

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THE INSTITUTE FOR
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The Fletcher School's Institute for Business in the Global Context (IBGC) was founded in recognition of the need for a new approach to the study of international business and capital markets—one that prepares global business leaders with essential "contextual intelligence." Through four core activities—research, dialogue, education, and lab—the Institute provides an interdisciplinary lens through which global markets and the underlying drivers of change can be understood. This is also a forum where original thought leadership, professional education and conversations among peers can be fostered.

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